The State's Capital Match: Investing in Our Future

Since the Alaska Gasline Inducement Act was voted into law by Alaskan legislators last year, some people have questioned the necessity of the state's potential $500 million capital match. The question has been asked, even by some of those who voted for it, "is AGIA worth $500 million?" While the fact that AGIA was passed so resoundingly would appear to be a strong indicator, it bears repeating now and until legislative action is taken this summer – the answer is unmistakably yes. The $500 million provided under AGIA is an investment in our resources that will pay for itself directly as well as indirectly.

The state's investment under AGIA is an investment in progress. Alaskans have waited decades to see their natural gas resources developed and transported to waiting North American markets. The AGIA provisions, particularly the commitments to set a timeline and then keep it, ensure that progress takes place. There are myriad questions that will need to be answered before dirt is turned on this project, but we must remember that the journey of a thousand miles, or in Alaska's case 1,715 miles, begins with a single step. The AGIA provisions require TransCanada Alaska ("TC Alaska") to conduct an open season within 3 years of receiving the license. What that means to Alaskans is that they can say with certainty that once the license is awarded then the open season is at most three years away. In fact, TC Alaska has already promised to reach open season in 24 months. We've never been in a position to know that before. That is progress, plain and simple. Likewise, TC Alaska has committed to timelines regarding the filing for federal pipeline certificates. These commitments are enforceable, so again they ensure that progress will be made. That is a first, and Alaskans should be excited about that.

The investment also buys certain provisions that I'd describe as protections for future Alaskans. Our current lease agreements allow for the resource developers to deduct transportation costs from royalty payments. In order to protect the value of our resources, we must be sure that the cost of transportation is not made unnecessarily expensive because that means fewer dollars to the state. The AGIA protections guarantee a debt-to-equity ratio that results in a fair return for the pipeline builder and a fair transportation fee for producers and ultimately for Alaskans. Deductions from royalty payments must be kept as low as possible so that the state can continue to fund capital budgets, but also so that gas can be delivered to Alaskans at the lowest possible cost. Another key AGIA provision that protects Alaskans from unnecessarily high transportation costs is the requirement that there be a transportation fee for deliveries inside the state that is different than the fee for shipping gas all the way to the lower 48. Low overall tariff rates and reduced costs for in-state deliveries are the direct result of the provisions that the state's investment buys.

In less than 12 months since the legislature passed AGIA the state has now had two separate producer proposals made as well as a host of bids under the AGIA RFA process. This is a far cry from where we found ourselves as recently as two years ago when the SGDA contract would have required enormous concessions from the state, as much as $10 billion dollars. When you add that cost to the state, plus the costs associated with the absence of the low-cost transportation commitments made by TC Alaska and the assurance that timelines will be set and then kept, the answer is abundantly clear. Is AGIA worth the $500 million investment? Emphatically yes.

Governor Sarah Palin